BIPARTISAN COMPREHENSIVE UNEMPLOYMENT INSURANCE AND EMPLOYMENT SERVICE REFORM AGREEMENT REACHED

A group of business, labor and state workforce agency representatives, working with the U.S. Department of Labor, has announced an historic agreement on a series of measures aimed at reforming and strengthening the nation's unemployment insurance program and public employment service system. The unique "Stakeholder Dialogue" produced agreement on a package in June after approximately one year of discussion and negotiation. The reform package has been transmitted to Congress and the Administration for enactment prior to the end of the current session.

BACKGROUND ON THE UI AND ES PROGRAMS

- Unemployment insurance (UI) is the primary source of temporary, partial wage replacement for laid-off workers who are seeking jobs. It is also the nation's leading automatic stabilizer during economic downturns. It is administered in connection with the employment service (ES) program, which helps unemployed workers and others find jobs and assists employers in finding new workers.

- The federal government defines broad requirements for the UI program and pays for state administration of the program; the states determine most benefit provisions (e.g., eligibility/disqualification provisions, benefit amount, duration) and the tax structure (e.g., state tax rates and base).

- The UI and ES programs are often referred to as the employment security system and are financed by federal and state UI payroll taxes. The federal tax, generally equaling $56 per year per employee (0.8% on the first $7000 in wages), funds:
  - federal and state administrative costs of operating the UI and ES programs, including paying benefits and collecting employer taxes, administration of the work test and job finding services for UI claimants, veterans employment services and labor market information (LMI);
  - loans to state UI benefit accounts that become insolvent during recessions; and,
  - the federal share of extended benefits, which are paid in states during periods of high unemployment.

- The state tax, which varies from state-to-state and from employer-to-employer within states, is used only for the payment of benefits. All state and federal taxes are deposited in the Unemployment Trust Fund, and are dedicated to the purposes outlined above.

PURPOSE OF REFORM EFFORTS

- In recent years, all major stakeholders have been unhappy in some way with aspects of the UI and ES programs:
  - Employers have sought repeal of a "temporary" 0.2 percent federal surtax, enacted in the mid-1970s, simplification of paperwork requirements and more fraud and abuse safeguards.
  - Worker advocates were concerned about the failure of the system to provide benefits to some groups of unemployed workers and the inability of the system to provide meaningful reemployment services.

- The Department of Labor was concerned about the continued effectiveness of the UI program as an economic stabilizer and whether it was recession ready.
- All of these parties, plus state administrators of the program, were frustrated with continued underfunding of UI and ES by the federal government as a result of budget pressures on discretionary appropriations. Increasingly, states have supplemented federal appropriations even as federal trust fund balances surged and contributed to the overall federal budget surplus.

ELEMENTS OF THE AGREEMENT

REDUCE TAX BURDEN AND SIMPLIFY EMPLOYER REPORTING REQUIREMENTS

- **Employer taxes -** Repeal the 0.2 percent federal unemployment surtax beginning calendar year 2001. This tax was imposed to reimburse the general fund for extended/supplemental benefits paid in the 1974-75 recession. Repayment was completed in 1987, but the surtax has been extended through 2007.

  Impact - Employers will save $1.75 billion in the first full federal fiscal year and nearly $13 billion by the end of FY 2008.

- **Simplify FUTA filing** - A change in federal law will allow the IRS to simplify the federal unemployment tax form employers must complete each year without changing the amount of tax due. Another change will reduce paperwork by permitting further experimentation in combining federal and state employment tax reporting.

  Impact - Employers will spend less time and other resources completing paperwork.

EXPAND ELIGIBILITY

- **Extended Benefits (EB) -** Make EB available sooner during economic downturns by lowering the required Insured Unemployment Rate (IUR) trigger from 5 percent to 4 percent, and streamline administration by conforming eligibility requirements to state laws.

  Impact - In the early 1990s recession, EB were paid in only 10 states. If the proposed trigger had been in effect, 15 states would have triggered on, making EB available to an additional 730,000 workers, and getting an additional $1.4 billion to workers and the economy during the peak year.

- **Using more recent wages -** Otherwise eligible workers can be denied benefits simply because their most recent earnings are not considered or their earnings are not yet entered into automated systems. Improved technology will be used to make more recent wages available for determining benefit eligibility. If individuals are initially ruled ineligible and the state agency has received more recent information from employers, the state must use that information to determine eligibility. USDOL will provide administrative funding for costs of technology to accelerate access to wage and employment information.

  Impact - An estimated 320,000 more workers per year will receive about $800 million in benefits (under current assumptions).

- **Part-time workers** - States will be required to pay UI to otherwise eligible laid off workers who have qualified on the basis of part-time work and who seek suitable and comparable part-time work under provisions of state law.

  Impact - An estimated 260,000 more workers annually will receive about $320 million in benefits (under current assumptions).

- **Increase financial resources available for state benefits trust funds** - In order to help offset the cost of benefit expansions, surpluses in the federal loan account will be distributed back to states. The federal unemployment account - which funds loans to states whose unemployment funds have been depleted - will be gradually reduced to its pre-Balanced Budget Act level. The loan fund will have sufficient revenue to fund loans during most recessions. In addition, other Federal Unemployment Trust Fund surpluses will be distributed as scheduled under the so-called Reed Act.

  Impact - The estimated Reed Act distribution at the beginning of fiscal year 2004 will be $1.3 billion and will range from $910 million to $1.2 billion in subsequent years. The additional surpluses resulting from adjustments to the loan account will amount to about $1.5 billion per year. These adjustments will cover all benefit expansions in this package for a period of five to ten years and, in many states, contribute to improved unemployment trust fund solvency.

IMPROVE ADMINISTRATIVE FUNDING AND PUT PEOPLE BACK TO WORK SOONER

- **Mandatory funding of state programs using statutory formulas** - UI and ES [including Veterans Employment and Training Service (VETS)] appropriations will be moved to the mandatory side of the budget and statutory funding formulas would be used to determine the national total amount available each year for state UI and ES activities. The formulas will reflect anticipated workloads and adjust funding levels for inflation.

  Impact - In the first year the formulas are in effect (FY 2002), funding will increase by about $450 million (FY 2002) for UI (including reemployment services for claimants), $240 million (PY 2002) for ES, and $60 million (FY 2002) for Veterans. This mechanism will promote reemployment (and reduce UI duration), enhance services to unemployment insurance claimants, other unemployed workers and employers, make the programs more efficient and strengthen program integrity.

- **Make sure UI claimants receive services** - Under the revised funding formula, money will be dedicated for the first time to provide reemployment services to UI claimants. States are not currently required to provide these and do not currently have sufficient resources to do so.

  Impact - Helping workers get new jobs faster will reduce the length of their unemployment, resulting in savings in UI payments which will ultimately lower employer taxes. The dedicated funds for this activity begin at about $90 million in FY 2002 and will be adjusted annually.